

SUPPORT

March 10, 2009

STATE RETIREMENT SYSTEMS STAFF REPORT ON LEGISLATION AFFECTING THE STATE EMPLOYEES' RETIREMENT SYSTEM

96th General Assembly

SENATE BILL 1946 – Senator Raoul

PROPOSAL

Senate Bill 1946 amends the State Employees' Article of the Pension Code to allow a member who purchases service credit for a period of leave of absence to have earnings credited during the period of leave. If no contributions are required to establish service credit for the period of leave, SB 1946 allows members to establish earnings for the period of leave by making the applicable employee and employer contributions (normal cost), plus interest, at 8.5% annually, from the date the leave began to the date of payment.

COMMENT

Currently, when SERS members purchase service credit for periods of leaves of absence, service credit is established, but those months or partial months are not credited with earnings. Upon retirement, in calculating a member's final average salary for the highest consecutive 48 months of compensation, months with no earnings are excluded, but months with reduced earnings are included. Therefore, when service credit is established for short leaves of absence, a member's final average salary may be reduced, thereby providing a lower monthly benefit to the member.

Senate Bill 1946 provides that SERS members who purchase service credit for a period of leave of absence will have earnings credited during the period of leave. If a leave of absence is too short to require the employee to make contributions to establish service credit for the period of leave, SB 1946 allows members to establish earnings for the period of leave by making the applicable employee and employer contributions (normal cost), plus interest, at 8.5% annually, from the date the leave began to the date of payment. The earnings will be credited at the employee's rate of the compensation on the day before the leave began.

SB 1946 will have no impact on State contributions to SERS or the financial impact of the System.

RECOMMENDATION

It is the recommendation of the staff that the system support Senate Bill 1946.